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Poll Tax: Mrs Thatcher's Greatest Blunder?

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Mrs Thatcher's Greatest Blunder

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On the evening of Tuesday 12 March 1986 a small party was held at a house in Kensington. Those present included some of the cleverest brains in the country: Victor Rothschild, the scientist and banker who had once directed the Think Tank; Oliver Letwin, a member of Mrs Thatcher's policy unit; Sir Leonard Hoffmann, a high court judge; Christopher Foster, a former LSE economics professor who ran Coopers and Lybrand's public policy unit; and Kenneth Baker, the Secretary of State for the Environment. The evening's host was probably as bright as any of his guests: a fellow of All Souls who since his teens had been tipped as a future Prime Minister, the then Minister of State for the Environment, William Waldegrave.

For 18 months the assembled company – politicians, civil servants, academics and outside advisers – had been grappling with one of the most difficult problems in British politics. Now, as they enjoyed food prepared by Caroline Waldegrave, managing director of the Prue Leith cookery school, it was time to celebrate. Between them these men and women had apparently succeeded where numerous previous enquiries had failed. They had devised a new scheme to finance local government spending, and to replace the long-despised domestic rating system. It was designed to make local authorities more accountable to their voters, and more responsible in their taxing and spending. Although few of those present considered themselves Thatcherites ideologically, most of them admired the Prime Minister and were pleased to have found a solution she wholeheartedly approved of. When Mrs Thatcher spoke of a radical manifesto for the next election, Kenneth Baker told the gathering, their work was what she was talking about. Privately, however, some of

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William Waldegrave's guests could not believe that the Conservatives would ever carry out the scheme they had dreamed up.

The poll tax would soon be described by Mrs Thatcher as the 'flagship' of her third term, but in retrospect it will probably go down as the iceberg that sank her – her greatest blunder. Although disagreements over Europe were the immediate cause of her downfall in the autumn of 1990, it was the unpopularity of the poll tax or community charge which caused so many Tory MPs to doubt whether Margaret Thatcher could pull off a fourth election victory. Indeed, in the chronicles of disastrous mistakes made by British governments, the poll tax is one of the worst. What is so remarkable is that so far only Mrs Thatcher herself seems to have been blamed. The poll tax cost the Treasury billions in subsidies; it has caused chaos in local government; it greatly damaged the Tories' election prospects. The main proponents of the poll tax, who invented it well before Mrs Thatcher gave her stamp of approval, managed to escape unscathed. Indeed what is so remarkable is how easily several of them have progressed to higher jobs in government.

For a complete account of how Mrs Thatcher and her party came to adopt the poll tax we will have to wait until the public records become available around 2015. Even then we may not get the full history. In December 1990 BBC 'Panorama' began piecing together an interim version of the story, attempting to trace the true origins of the poll tax, and to ascertain exactly who deserves responsibility or blame. Eventually our research was overtaken by the Gulf War, and it will never be used for a 'Panorama' programme. But it is still worth placing some of our work on record.

Today many are understandably reluctant to talk about their role in the affair. On the other hand, a few unrepentant souls are happy even to exaggerate their contribution. Quite how the poll tax came to be adopted between 1984 and 1986 is a fascinating tale, rich in irony and amusing twists. Several intriguing questions have yet to be answered.

The story goes back to 1974 when Edward Heath appointed Margaret Thatcher as Shadow Environment Secretary following the Conservatives' February election defeat. That spring saw high rate rises from councils across the country, not because of the change of government, but, thanks to high inflation, local government reorganisation and the the 1973 rating revaluation. The idea of abolishing the rates seemed an obvious vote-winner, and Heath asked Thatcher to work on the idea and announce it as Conservative policy in advance of the second election expected that autumn. Ironically, Mrs Thatcher resisted the policy at first, but outnumbered in the Shadow Cabinet, she eventually complied. Yet in the rush to prepare for another round of polling, little thought was given to

any alternative. One idea was to transfer some local authority costs, such as teachers' salaries, to central government. But when that August Mrs Thatcher used a press conference and a political broadcast to launch the new policy, the party spoke of introducing new taxes that were 'more broadly based and related to people's ability to pay'.

By 1984, Mrs Thatcher's ten-year-old rates promise remained unfulfilled – and regular reminders from friend and foe only seemed to arouse in her nagging feelings of guilt. 'Who will rid me of this turbulent tax?' summed up the attitude in Downing Street. In opposition between 1974 and 1979 the party had sought a workable alternative, but failed. The Conservatives' rejected the 1976 Layfield Report's idea of combining rates with a local income tax, and the 1979 manifesto backtracked on the 1974 promise, saying tax cuts 'must take priority for the time being over the abolition of the domestic rating system'. Then, back in power again, enquiries by two successive Cabinet committees made no progress. Michael Heseltine's 1981 green paper, *Alternatives to Domestic Rates*, suggested three options, including the poll tax, without supporting any of them. Next a white paper, published in August 1983, said rates would remain for the foreseeable future as the main source of local government revenue, though it advocated limits on rate levels. A poll tax was again briefly mentioned, but rejected. 'Without a rebate scheme', the document warned, 'a poll tax would bear harshly on people with low incomes'.

These inconclusive Cabinet reviews came amidst the tortuous attempts by the Conservatives to restrict council finances. With an economic policy based on controls on government spending and borrowing, ministers felt they could not ignore local government when it accounted for more than a quarter of public expenditure. Year after year the government had imposed more complicated controls. A new grant system had been introduced in 1980, whereby local authorities were penalised if they spent more than the individual spending targets the government thought adequate.

But whilst the level of local authority spending met by central government fell from 60 per cent to less than half during the first six years of the Thatcher government, overall council spending as a proportion of GDP actually increased. Facing tighter grants from Whitehall, councils had turned to the only other significant revenue they had – domestic and business rates. But these sources, too, were then restricted by government. In 1982 councils were forbidden to demand supplementary rates once an original rate had been set. And the 1984 Rates Act gave ministers the power to 'ratecap', to limit the rates certain councils could levy.

What particularly concerned ministers was the disparity they saw

between taxation and representation, between those who paid for councils' spending plans, and those who voted for them. 'Accountability' was the key word that summed up ministers' concerns; indeed it was a problem that had been identified in local government by the Layfield committee back in 1976. Roughly half of council funds came direct in grant from central government and half from rates. But of the rates income only 40 per cent arrived from the pockets of ordinary voters – around 50 per cent came from rates on business and public institutions, and a further ten per cent from rate rebates. So, overall, voters only had to meet about 20 per cent of council spending. On the other hand only half of those entitled to vote for local authorities – the electorate – paid rates, and because of the rebate system only a third of voters actually paid them in full. Moreover, the turnout in local elections was generally low – about a third – and when people did vote their choice was largely determined by national factors.

Ministers were convinced that weak accountability tempted councils down the path of excessive spending. Labour councillors, in particular, were suspected of increasing rates in the knowledge that only a small minority of their party's voters would have to pay them. Higher rates were often the easiest option: reduced local services might offend many more voters. The criticism was especially directed at Labour councils, many of whom undoubtedly felt obliged to use council funds to boost their local economies so as to compensate for general cuts in central government spending. But the Conservatives' public assault on 'overspending' Labour authorities hid the embarrassing fact that Tory shire councils were almost as big a problem too. Indeed, one official involved in the invention of the poll tax privately blames it on Emily Blatch, the then Conservative leader of Cambridgeshire Council who now, as Baroness Blatch, is a junior minister at the DoE. Cambridgeshire had made strenuous efforts to contain its budget, but ministers' spending targets and penalties were based on figures for 1978–79 when Cambridgeshire's budget happened to be unusually low – well below even the government's own assessment of the county's needs. When the council's expenditure later returned to more realistic levels, it was then penalised as an 'overspender' and suffered a big cut in grant. In 1984 Mrs Blatch's unhappy Conservative councillors had been forced to increase their rates by ten per cent, and they faced the prospect in later years of being ratecapped.

Yet, if anybody has to take responsibility for opening the rates debate again, and initiating the moves that led to the poll tax, it was the Environment Secretary who took over the problems of local government in June 1983, Patrick Jenkin. The following March Jenkin told Tory

activists that the search for an alternative to the rates had been abandoned for that Parliament, but events quickly forced him to change his mind: within months he had concluded the rating system could only last three or four more years. By the summer of 1984 Jenkin was under intense pressure, struggling for his political survival. He had endured a running battle over plans to abolish the GLC and other metropolitan county councils, and particular embarrassment when his paving bill to cancel the councils' elections due in 1985 was defeated in the Lords (although the measure was later reinstated). Then in July Jenkin was further damaged by his financial settlement with the Militant-dominated Liverpool Council. It had widely been interpreted as a victory for Liverpool and a climb-down by the government. The whole system of local authority finance seemed to be getting dangerously out of control.

Amid the local pressures to increase domestic rates, it is not surprising that Patrick Jenkin faced several motions on the agenda of the 1984 Conservative conference, calling again for rates to be abolished. They posed an immediate problem for Jenkin, highly political, and acutely personal. If he was not to suffer further humiliation on top of the paving bill and Liverpool debacles, he had to placate Tory representatives. His fears showed that Conservative conferences are not just fan clubs for the party leadership; twice during the poll tax saga they forced crucial changes in government policy.

A month before the conference, on Sunday 2 September 1984, Patrick Jenkin travelled to Chequers desperate to find something to promise the Tory faithful.' Initially he suggested to Mrs Thatcher that the rates abolition motions be accepted. Then after lunch, as Jenkin, Nicholas Ridley, and one or two other Cabinet members joined the Prime Minister in the drawing room, the Environment Secretary suggested a new enquiry into the whole system of local government finance. Jenkin found that Mrs Thatcher was surprisingly sceptical about the idea. Although her 1974 commitment still troubled her, and she personally abhorred the rates, the Prime Minister was apparently unconvinced that a third government enquiry would make any more progress than the previous two, and doubted whether other ministers would go along with it. Mrs Thatcher agreed, however, that Jenkin could submit an outline paper to Cabinet committee. Jenkin was confident it would not be a waste of time; his Deputy Secretary at the DoE in charge of local government, Terence Heiser, had assured him that despite previous failures, the department could come up with some new ideas this time.

After three Cabinet committee meetings Jenkin got the pledge of a new enquiry, what he needed to avoid humiliation in Brighton. Conservative representatives were promised a new 'study' – the word had been

chosen carefully: Lord Whitelaw, chairman of one of the two previous enquiries, had insisted they could not simply offer yet another 'review'. But, of course, by the time the Tories came to leave Brighton, Jenkin's pledge had been overshadowed by the horror of the IRA bomb attack on the Grand Hotel.

To speed things up, the new study would largely be confined within the Department of the Environment (DoE), with little reference to other ministers or outside experts. Even though most of the crucial decisions leading to the poll tax were taken during Patrick Jenkin's time in charge of the DoE, after Brighton the Environment Secretary himself played very little role in the process. Jenkin had more than enough to handle trying to abolish the GLC and the metropolitan authorities, and the new task was immediately delegated downwards. Kenneth Baker, the Minister of State for local government, was officially put in charge, but the detailed day-to-day work was given to the DoE Parliamentary Under-Secretary, William Waldegrave. More than any other minister, Waldegrave was to be the brains behind the poll tax. Today, seven years later, Waldegrave may have problems in his personal relations with John Major, and over his handling of the health service, but what is astonishing is how unscathed his career has been from the disaster his work proved to be.

Waldegrave had been among the big stars of the 1979 Parliamentary intake, widely predicted to achieve the highest offices in the land. And the new enquiry into local government finance was the biggest challenge Waldegrave had faced since Mrs Thatcher made him a junior minister in 1981. Until now his career had been burdened with the problem of being a Tory 'wet', and his association with Edward Heath. He had been Political Secretary to the former Tory leader in the mid-1970s, having earlier worked in the Think Tank (the Central Policy Review Staff), the body Heath set up under Lord Rothschild to chew over difficult policy issues and suggest new solutions. Yet, while Waldegrave belonged to a different wing of the Tory party from Mrs Thatcher, like her, he was very willing intellectually to consider radical ideas to tackle intractable problems. That is what the Think Tank had been all about.

Victor Rothschild had believed the way to confront any difficult issue was to put a group of brilliant minds onto it, to grill the outside experts, and to think about it intensively. Then, once a solution had been found, it should be skilfully presented to ministers in the most imaginative way possible. Rothschild had operated on the basis that it was the Think Tank's job to 'think the unthinkable'. Now Waldegrave was about to think the unthinkable once again, assisted by two old Think Tank colleagues.

It was an obvious move that Waldegrave should ask his old boss and

friend, Victor Rothschild, to help the local government finance enquiry, although he had no real experience in the area. It was a good move politically, since Rothschild and Mrs Thatcher thought highly of each other. When the Prime Minister formally invited him, the banker readily agreed to help, keen perhaps to overcome lingering doubts and damage to his reputation from allegations that he was the fifth man in the post-war Soviet spy ring. But Rothschild insisted on including a close friend, Lenny Hoffmann, a QC who had worked on the Royal Commission Rothschild had chaired on gambling. Like Rothschild, Hoffmann had little knowledge of local government finance, but he brought a first class mind to the subject and legal expertise. Waldegrave also recruited Tom Wilson, an economics professor from Glasgow University, whom he had known at All Souls, and who had briefly advised the Changing Gear group of wettish Tory MPs Waldegrave had convened in the early 1980s. Although Wilson was an economist, he had no particular experience of local government either. All three men were hired brains, employed to think incisively, to master a highly complex problem, examine it afresh, and conceive some brilliant solution.

But a fourth outsider Waldegrave approached, was an expert, and ultimately his ideas proved to be the most influential. Christopher Foster was one of those political animals, more common in America than Britain, whose work straddled government, business and academic life. A director of Coopers and Lybrand, Foster had served as a professor at the LSE, and in the 1960s and 1970s had acted as an adviser to several Labour ministers, including Barbara Castle and Anthony Crosland. He was well known in Whitehall and DoE officials were familiar with Foster's extensive writing on local government finance; in 1980, for instance, he had published a book with Richard Jackman and Maurice Perlman, *Local Government Finance in a Unitary State*.[3] Significantly this work had discussed the possibility of funding local government with a poll tax, and though Foster recognised there were 'objections', it was the first time the idea had been considered seriously in Britain since the reign of Richard II. Equally important, Foster had also examined the accountability problem in local government,[4] and was keen to resolve the mismatch between those who voted for local councils and those who paid for their services. If any one individual provided the intellectual backing for the poll tax, and the idea that everybody should pay something for council services, it was probably Foster. He did not propose it as a solution particularly vehemently; it was simply that when the other options were ruled out one by one, Foster would explain how a per capita tax was perfectly workable.

Inside the Department of the Environment Waldegrave gathered a

small team of high-fliers. Nominally they were led by Terence Heiser, but the detailed work was supervised by an assistant secretary, Anthony Mayer, who also happened to have served in the Think Tank under Lord Rothschild, though not at the same time as Waldegrave. Mayer was assisted by three principals: Roger Bright, who was promoted to assistant secretary during the course of the work; Jill Rutter, transfered to the DoE on secondment from the Treasury; and David Lewis, an economist. Later the group was bolstered by an under secretary, Peter Owen. They were a relaxed team who worked well together at their difficult task, partly because they were so few in number, and partly because of the intense pressure and tight deadlines they were operating under. Occasionally, late at night, Waldegrave and some of his officials might break for a game of bridge – Mayer and Bright had long played the game together – or they might nip out to a local wine bar for a bite to eat. Yet they understood the political importance of what they were doing. There was a feeling that previously the DoE had let Mrs Thatcher down: this time they had to succeed. Initially those involved did not think they were looking for a way to abolish the rates: many joined what was meant to be a wide-ranging enquiry into local government finance believing the rates were quite a good tax. They assumed rates would stay, but wanted to know if they could be supported with some supplementary source of local revenue.

After two enquiries into the rates in the previous four years, the possible means of raising local government finance were well covered in the departmental files. They fell into four broad categories: a property tax, a local income tax, a local sales tax, and a per capita charge or poll tax. It quickly became obvious that each of the first three options: property, sales and income taxes, was politically flawed. For each one of them came up against major tenets of Thatcherite philosophy, and they knew it was pointless to press a solution Mrs Thatcher was bound to reject.

First, perhaps more than anything, the Prime Minister was a great believer in people owning their own homes – any property tax was likely to deter home-ownership, that partly explained her hostility to the rating system.

But second, the Conservatives under Mrs Thatcher were committed to cutting income tax. Any income tax cuts the Chancellor might produce could easily be negated if local income taxes allowed councils to add to people's tax bills. There was also the problem that income tax is levied according to an individual's place of work, yet many millions of people do not live in the local authority they work in. This would not only make it hard to administer, but it would not tackle the accountability problem. And in any case the Inland Revenue insisted that it would be the mid-

1990s before their computers could handle the many local income tax levels that would inevitably be involved.

People close to the former Prime Minister say her initial inclination, influenced by American examples, was for local sales taxes. Sales taxes are reasonably simple in large US states, but are more complicated in the small areas covered by British local government. In Britain some council areas had relatively few shops compared with others. And there would be 'cross-border shopping': people in Lambeth, for example, would simply flock to shops with cheaper sales taxes in Wandsworth. Additionally, local sales taxes would raise prices and so undermine a third important tenet of Thatcherism – the fight against inflation, though of course rates and poll taxes are inflationary too. Perhaps more important, because a local sales tax would be imperceptible to the public, it too would do nothing to improve accountability.

Gradually, Waldegrave and his team made progress by a simple process of elimination. By January 1985 both local income tax and a local sales tax had been ruled out; already the idea of some form of per capita levy or poll tax was being considered more and more seriously. Initially it was envisaged as a simple supplement to the rates, and a development of the rate-capping process. It was suggested that if a council wanted to spend above its government target it could only raise the money with an extra flat-rate levy on each citizen. In theory this supplementary tax would greatly assist accountability by being highly perceptible to the ordinary voter, and by having a very wide base – indeed every adult within a council's jurisdiction. Nobody appears to have had much enthusiasm for the poll tax; it simply emerged as the option with fewest drawbacks. Christopher Foster apparently told Waldegrave that, given the restrictions they were working under, the poll tax was probably what they were looking for.

The first major Conservative politician to have advocated a poll tax was Sir John Grugeon, the leader of Kent County Council, as early as October 1981 at the annual conference of the Rating and Valuers Association in Torquay. Grugeon had been among the experts advising Mrs Thatcher at the time of her 1974 pledge to abolish the rates, and his voice carried weight in the upper ranks of the Conservative Party, although it was not until 1981 that he began lobbying for his new replacement for the rates. 'A straight poll tax based on the electoral register', Grugeon argued in Torquay, would 'be a very visible tax' and improve local accountability. He repeated his arguments in a letter to the *Financial Times* the following month, insisting 'that such a change is imperative if local government is to survive'.* When Patrick Jenkin announced his new study three years later Grugeon sent him a copy of his

1981 speech. In advocating a rebate scheme to allow for people's ability to pay, along with a 'nationally set business rate' Grugeon's ideas proved remarkably close to what Jenkin's successors eventually implemented. But it is difficult actually to establish much of a link between Grugeon and what happened: hardly anybody working on the DoE study actually seems to have been aware that he had made the suggestion.

The poll tax was after all an extremely simple idea, and it enjoyed several advantages. First, it would not be 'buoyant': unlike a sales tax or income tax, revenue would not rise automatically with inflation or growth. Instead councils would have to make public decisions each year to increase the poll tax figure. It was this aspect that most appealed to Oliver Letwin and John Redwood, the two members of the Downing Street Policy Unit who acted as go-betweens with the Waldegrave team and the Prime Minister.

Second, as one distinct annual levy, people would be fully conscious they were paying the poll tax. Income tax is usually deducted from one's pay, and sales taxes disappear into prices, so few people have much idea of the total income tax or VAT they pay. When voters wrote out poll tax cheques or delivered cash sums to their local council, however, they would quickly realise how much local services were costing. The idea was that voters would keep a much closer eye on their local council's spending policies, and vote accordingly. The hope was that the pressures on local politicians would become so great that central government might no longer have to restrict council finances with the complex system of grants, targets and penalties.

Whilst Waldegrave and his team saw the perceptibility of the poll tax as its great stength, in reality, of course, it proved to be its great weakness. Ultimately, it was the very fact that voters knew exactly how much they were paying in poll tax, and that people had to make a deliberate act to pay it, that destroyed it.

At this point it is perhaps worth demolishing one of the great myths about the poll tax. Its invention has often been attributed to the libertarian think tank, the Adam Smith Institute [ASI], and Douglas Mason, a former Conservative councillor and academic at St Andrew's University, who has been responsible for the ASI's work on the subject. Left-wing critics may like people to believe the poll tax was foisted on ministers by a mysterious right-wing body, and the idea of an eccentric Scottish academic dreaming up government ideas makes good journalistic copy. Above all, the Adam Smith Institute itself has been quick to take responsibility for the poll tax; the more any think tank is thought to influence government policy the more it will be listened to and will win financial support.

The ASI traces its authorship of the poll tax to an article by the Institute's president, Madsen Pirie, in the *Daily Mail* in October 1981, though it was in fact ghost-written by Mason. The idea came up again in the ASI's Omega Report published in August 1983. But the Institute's main publication on the poll tax, Douglas Mason's pamphlet *Revising the Rating System*, was not published until April 1985, six months after the Walidegrave enquiry began.[7] Mason also drafted the pamphlet by the backbench Tory MP, Michael Forsyth, *The Case for a Poll Tax*, published the same month.[8] By the time these documents came out, however, the Thatcher government was well down the road to the poll tax. Nobody involved in government work on the tax in 1984 and 1985 believes the ASI had any influence at all. 'Never heard of him', says one of the leading officials of Douglas Mason, though others were vaguely aware of his ideas.

As 1984 turned into 1985 the DoE group had its minds focused on a meeting scheduled for the last Sunday in March 1985, when their work would be presented to Mrs Thatcher. Appropriately, the venue was to be Chequers, where Patrick Jenkin had persuaded the Prime Minister to set the ball rolling the summer before.

That winter, as the presentation to the Prime Minister loomed, the poll tax made steady progress, and was soon elevated from being simply a supplementary tax to the rates, to consideration as a full-scale replacement. Three of the outside advisers became distinctly uncomfortable. Whilst Christopher Foster explained how a poll tax might make councils more accountable, Tom Wilson was adamantly opposed to it. Lenny Hoffmann was unhappy with the idea too, and a few days before Chequers distributed an eight-page report condemning a 'per capita tax' as 'overtly regressive'; instead he suggested simply reforming the rating system. Hoffmann's document was so well produced – properly typeset, and printed inside a smart red cover – that an uninitiated outsider might have mistaken it for an official government publication. The several hundred pounds that must have been spent printing the report had been paid not by Hoffmann himself, but his close ally Victor Rothschild, who agreed with him that the poll tax was a bad thing. Throughout his fascinating life Rothschild often projected an air of conspiracy, and so it proved during the birth of the poll tax. Whilst prepared to fund Hoffmann's objections from his own ample pocket, he was not willing to put his own name to the document and condemn the tax himself. Indeed Hoffmann and Rothschild were so surreptitious in their objections that several important DoE officials never even saw their pamphlet.

Rothschild has on occasion been credited with being the brains behind

the poll tax. Indeed just before his death in 1990 Rothschild confided to his biographer Kenneth Rose his concern that Mrs Thatcher was going round saying 'Victor devised the poll tax'. Rothschild told Rose that in fact he had supported the idea of local income taxes, and was convinced that the Inland Revenue could cope with this. But, as with so many aspects of his career, Rothschild's role in the poll tax saga is mysterious and intriguing.

Whilst Rothschild personally disliked the tax, it is not surprising Mrs Thatcher should think he was behind it when he played such a full role in actually persuading her it was the best option. The importance of good presentation in selling new ideas to ministers was something Rothschild had long stressed, and with the poll tax he rekindled the days when members of the Central Policy Review Staff 'stood before Ministers with screen, slides, and pointer, and took them through the cases that the CPRS wanted to put across'.[1] In preparation for Chequers he helped organise another of his elaborate shows with projector and flip charts. On the first Sunday of February 1985 ministers and officials went to the Capitol Hotel near Harrod's for a dress rehearsal in front of Patrick Jenkin. Later Waldegrave, Rothschild and Hoffmann went alone to the Cabinet Office for another rehearsal before the Cabinet Secretary, Sir Robert Armstrong. The discrepancy between the two different Rothschilds can only be explained by considering him as a professional thinker who felt he had been hired by Mrs Thatcher to come up with the kind of solution she would like. Rothschild acted like a barrister defending his client to the best of his abilities even though he was convinced of his guilt. Indeed many of the Waldegrave team appear to have acted like consultants employed to carry out a task they themselves were by no means happy with.

By February 1985 the DoE work boiled down to two distinct options. First was the simple idea of simply replacing the rates with a poll tax, but second was the suggestion of introducing a poll tax that would be levied alongside a modified property tax. Under the latter scheme each local authority would divide its expenditure into that which was associated with heads, such as education and social services, and that which was roughly linked to the size of property, such as fire services. If the ratio was 70:30 for example, then the council's revenue would be levied 70 per cent from the new poll tax and 30 per cent from the new property tax. The levels of property tax would depend not on rateable values as in the past, but on how many square feet each property contained. It would have been quite a complicated system to administer, and not long before the Chequers meeting William Waldegrave dropped the two-tax idea, with the backing of Kenneth Baker.

William Waldegrave seemed convinced of the virtues of a simple poll tax, and believed it should act as a full replacement for the rates. In planning his presentation for the Chequers gathering, Patrick Jenkin suggested to Waldegrave that he should rehearse very carefully his closing words to Mrs Thatcher. 'And so Prime Minister', Waldegrave is reported to have told the assembled ministers and officials that Sunday afternoon, 'by this means you will have fulfilled your long-standing promise to abolish the rates'. His peroration seemed designed to make the utmost impact on the woman haunted by her 1974 election pledge, a promise she had opposed at the time but felt morally committed to ever since.

During March 1985, in the days immediately before Chequers the outside political momentum to abolish domestic rates had become overwhelming. And the greatest pressure was coming from Scotland, where only a few days before the Sunday gathering, one of those present, Lord Whitelaw, had been shaken by the reception he had received from party activists at a Conservative dinner in Strathkelvin and Bearsden, a marginal seat. Whitelaw knew the party well: he was honorary president and had been their local candidate back in 1950 and 1951. 'I've never had a reception like that,' Whitelaw reportedly told fellow ministers on his return, 'and they were all the best Conservatives.' It was one of the most uncomfortable experiences of his political career.

What upset the Scots were the figures for the Scottish rating revaluation, announced the previous month to take effect that April. Although theoretically the overall effect of a rating revaluation was that increases in some rates bills would be offset by decreases elsewhere, properties in Conservative areas were the hardest hit and councils seemed to use the revaluation to disguise overall increases in spending. The week of Whitelaw's visit to Scotland the Tories had lost a safe seat in a regional council by-election in Ayr, the marginal constituency held by the Scottish Secretary, George Younger. The Tories' electoral prospects in Scotland looked grim, and a group of Scottish Tory MPs voiced their anxieties on a visit to Mrs Thatcher. But she and her ministers were most shocked by the traumatic effect on Willie Whitelaw: for as chairman of one of the two previous enquiries into the rates he had been among those blocking reform. Now he insisted the need for change was urgent.

Although Patrick Jenkin had played little part in his department's enquiry, he too was very personally aware of the drastic effects of the Scottish rates' revaluation. His family owned a boathouse on Macaskin Island on Loch Craignish in the West of Scotland, and when they heard that the rateable value had increased from £15 to £100 the Jenkins even took legal advice.

Revaluations in Scotland were required by law every five years. South

of the border, where they were not compulsory, a revaluation had not been carried out since 1973, but ministers knew that in fairness English and Welsh revaluations, and the inevitable outcry, could not be delayed indefinitely.

The upheaval in Scotland and the horrific thought of an even more radical rates revaluation in England and Wales were foremost in ministers' minds when they gathered at Chequers on 31 March 1985. Around half the Cabinet was there: as well as Mrs Thatcher and Patrick Jenkin, there were the Chancellor, Nigel Lawson; Lord Whitelaw; George Younger; the Welsh Secretary, Nicholas Edwards; the Northern Ireland Secretary, Douglas Hurd; Lord Young; and the Home Secretary, Leon Brittan. Others present included the party chairman, John Gummer, Michael Ancram from the Scottish Office, and, of course, Kenneth Baker and William Waldegrave from the DoE. They were accompanied by Terence Heiser, Anthony Mayer, Lord Rothschild and a DoE slide projectionist. The presentation lasted five hours, interrupted by lunch.

The poll tax was formally presented to Mrs Thatcher only as the most promising of several options for raising local authority revenue, and was proposed amidst a long list of ideas to create a local government system where people would vote for what they wanted to pay for. Some, such as annual council elections and unitary authorities would soon be forgotten; the idea of a uniform rate for businesses was eventually implemented with little fuss. But, of all the items Waldegrave's team proposed, the poll tax would have the most far-reaching consequences. It was that Sunday at Chequers that the Prime Minister probably accepted the idea that helped bring her down five years later.

The widely-held view that 'Margaret Thatcher imposed the poll tax upon her party' is a gross over-simplification of the actual chain of events.[9] Although she had been kept fully aware of the work being carried out by the Waldegrave team, she took 'a long time to be convinced' says one adviser. Indeed the head of her No. 10 Policy Unit, John Redwood, was rather sceptical about it, but Oliver Letwin, the policy unit member responsible for local government, was extremely keen, and had kept chivvying the Prime Minister.

After Chequers the government was firmly set on one particular course, and Mrs Thatcher quickly became one of the most enthusiastic backers of the new tax. Aware that Mrs Thatcher was now backing the radical plans, Kenneth Baker quickly took more control of the work. Like Waldegrave, Baker also needed to win the confidence of the Prime Minister and shake off the image of being a 'Heathite'. Indeed, Baker had served as Edward Heath's PPS in 1974, at the very time Waldegrave was serving as the Conservative leader's Political Secretary. Many who

worked with Baker in 1985 argue he was highly sceptical about the proposed poll tax, but they believe he had decided that if the wind was blowing in that direction, he had no option but to take charge. William Waldegrave, meanwhile, appeared rather upset at the way his work had suddenly been hijacked by his superior. 'He behaved just like a brat who's lost his ball', one official recalls, and seemed reluctant to devote so much energy to it.

Late one evening in May 1985 Baker and his officials were working high in an office in one of the towers of the Department of the Environment, preparing for a second presentation to a Cabinet committee. Suddenly they heard an loud explosion from the direction of Parliament, and rushed to the window fearing the worst. The party was somewhat relieved to find that the noise had come from a GLC firework display on the South Bank to mark the fortieth anniversary of VE Day. 'Let's hope this goes off with equally big a bang', remarked a grinning Kenneth Baker.

But privately Baker had serious doubts, especially after seeing DoE studies of the distributional effects. These showed how radically the less well-off would suffer, along with many councils, predominantly in the north, who had relatively low rates because hitherto they had been subsidised by higher rate councils in the south. He insisted officials should continue examining the alternatives, including various property taxes, but ultimately their work was wasted. Instead, Baker decided that the poll tax should go ahead, but be introduced over a long ten-year period.

Soon other anxieties were being expressed by ministers elsewhere in government. The Home Secretary Leon Brittan raised the civil liberties question of whether the poll tax register might deter people from voting. It was partly to answer such concerns that the phrase 'poll tax' was abandoned around this time in favour of 'resident's charge'. The word 'charge' was chosen to reflect the idea that people would be paying for a bundle of council services, in much the same way as they might pay a parking fee or buy a TV licence. But alongside fears about voting rights, came much stronger objections, from the Treasury.

Throughout the summer of 1985, as environment ministers quickly added flesh to their plans, the Chancellor Nigel Lawson attacked them in meetings of the Cabinet committee, which Mrs Thatcher chaired herself. In May Lawson submitted a paper arguing that the tax would be 'completely unworkable and politically catastrophic', that numerous exemptions and concessions by Whitehall would be inevitable, and that local councils would exploit the new tax to increase spending and then blame the higher bills on central government.[1] The Treasury also feared that poll tax rebates to help the less well-off would have to be based on

income, and so inevitably would deepen the already serious poverty trap under which people on low incomes face high marginal rates of taxation.

The Treasury felt the rating system had been an extremely efficient way of raising a lot of money, and Lawson argued for a revised property tax, based not upon periodic revaluations of property, but largely on the price at which people's homes had last been sold. This idea got some sympathy from Kenneth Baker, but Mrs Thatcher said it was one of the worst ideas she had ever heard. The DoE meanwhile sent Christopher Foster to try and convince Nigel Lawson of the virtues of the poll tax. Foster accepted the tax might be regressive, but suggested that Lawson himself could offset this by increasing income tax rates on the better-off. The Chancellor was not impressed and, of course, in the event he did the very opposite, reducing the top rate of income tax from 60 per cent to 40 per cent, which only compounded the impression that the government was helping the rich.

Lawson has said he got no support in Cabinet committee apart from his Chief Secretary, Peter Rees. Colleagues were concerned with their own departmental interests, he says, and supported the Prime Minister out of loyalty. Facing defeat, Lawson put his weight into arguing for the longest possible phasing-in period.

But several of Lawson's fellow ministers suggest the Chancellor's opposition was far from wholehearted. 'Normally,' says one Cabinet member, 'if the Treasury say "we are opposing this all the way Prime Minister" then that's the end of it. They didn't do that.' He recalls the Chancellor sitting there glum-faced at committee meetings 'as if he had swallowed too much Christmas pudding', and was surprised at how quiet Lawson was. The Treasury opposition was 'very muted', another colleague adds, and 'never conducted with any great degree of thoroughness'. But Lawson had bigger battles to fight – over Europe.

Within the Department of Environment team there were also voices of dissent. Although Lenny Hoffmann resigned on his appointment as a high court judge in May 1985, Victor Rothschild continued his work. On one occasion officials were invited to Rothschild's Bank for a working session over canapes, and Rothschild himself quietly continued to consider alternatives. When it was clear Mrs Thatcher would not buy a local income tax, he suggested the poll tax should be banded according to income, but that made no progress either. Professor Tom Wilson insisted the resident's charge would be extremely unfair, and in August 1985 he made a final attempt to get it scrapped: when that failed he stopped taking any part in the study work. By the autumn of 1985 the momentum towards the poll tax was unstoppable and now the two ministers most closely involved both had more powerful jobs. Kenneth Baker had been

promoted to Secretary of State on the sacking of Patrick Jenkin in early September, while William Waldegrave had taken Baker's place as Minister of State. On 23 September 1985 the Cabinet committee formally approved the new tax, whose name had been changed again, from 'resident's charge' to 'community charge'. It is not clear who devised the new name, possibly Mrs Thatcher herself, perhaps Kenneth Baker. It was envisaged that once the charge was introduced in full the average level would be in the region of £120 or £150, a level similar to people's annual gas or electricity bills.

In Scotland, Conservative politicians did not see the problem of local government finance so much as an intellectual challenge as a question of political survival. Both the Secretary of State, George Younger, and his deputy, Michael Ancram, who liaised with the London poll tax team, held marginal seats. That September it was also agreed that the community charge would be introduced in Scotland a year earlier than in England and Wales, and whereas south of the border it was envisaged that the community charge would be levied alongside the rates for several years, in Scotland the rates would be abolished at once.

The government's green paper, *Paying for Local Government*, was ready by the end of 1985.[1] It proposed that the new community charge be introduced in England and Wales over a period of up to ten years. 'People will need time to adjust', it said. 'It is reasonable to expect domestic rates to have been phased out completely within 10 years of the introduction of the new system.' But it promised that 51 per cent of households would be better off. The document was green in name and green in colour. But effectively, since a white paper was never published, government policy was pretty much decided.

The Cabinet approved the green paper on the morning of Thurday 9 January 1986. Remarkably it was the first time the full Cabinet ever discussed the poll tax, although it had gone through committees involving 15 or 16 ministers, three-quarters of the membership. Its passage through Whitehall had been eased by the belief that it was still largely a Scottish issue. But now, of course, it was far too late for any minister to object seriously. The meeting that January morning was probably the most historic Cabinet of all Mrs Thatcher's 11 years in office. It will be remembered not for the poll tax endorsement, however, but for Michael Heseltine's dramatic resignation over the Westland affair.

The poll tax was the very next item on the agenda. Understandably it got only brief consideration; discussion lasted no more than fifteen minutes, and ministers' minds were somewhat diverted by the scenes they had just witnessed. It was sheer coincidence, of course, that Michael Heseltine should have resigned from the Cabinet just before it came to

consider the poll tax, but now he could rightly claim he had not been party to its adoption having not served on the Cabinet committee either.

Westland was only the first of a series of major distractions which prevented the poll tax getting the full discussion it deserved. For the green paper was published on 28 January 1986, the day the space shuttle *Challenger* blew up. Evening news bulletins that would normally have given the new plans extensive analysis, barely gave them a mention.

And in the 1987 general election campaign 16 months later, the poll tax was hardly mentioned either: one Cabinet member was 'staggered' how Labour made so little of the issue. The opposition parties failed to see just how unpopular a measure it would become. In Labour's case it was deliberately avoided. Party officials feared that attacking the government over the poll tax might expose Labour's own difficulties in local government, and the activities of what critics called 'looney-Left councils'. Labour also had the difficulty that, though the party also thought the rates were far from ideal, it had no alternative to offer.

The poll tax was a policy that emerged almost without trace. One of the most disastrous measures in political history was adopted without a white paper, with only 15 minutes' half-hearted discussion in Cabinet, with barely a word in the media on the day it was announced, virtually no debate as a general election issue, and yet with full opposition from the Treasury.

But the fact that the poll tax not was an election issue in 1987, coupled with the euphoria of the Tories' third triumph, gave the party the belief that it could be implemented without difficulty. Within weeks of victory the new Environment Secretary, Nicholas Ridley, overcame Treasury opposition to cut the implementation period from ten years to four, but not even that was enough to satisfy some Tory enthusiasts. Ridley was able to speed up the timetable even further on the triumphalism of the 1987 Conservative conference. Led by the former Aberdeen MP, Gerry Malone, speaker after speaker called for the poll tax to be brought in overnight south of the border, as was already planned for Scotland – the 'big bang' policy. Mrs Thatcher turned to Nicholas Ridley on the platform and suggested they should consider the timetable again. Within six weeks ministers had agreed that the poll tax should indeed replace the rates in one go in England and Wales, in April 1990.

Nicholas Ridley's decision meant that many of the original architects of the tax can rightly argue it was never implemented in the way they had envisaged – a line frequently taken by Kenneth Baker's friends, for instance. Aware of the problems it might cause, he had proposed that the poll tax should first supplement the rates, and only after ten years replace them altogether. It is arguable, however, whether a new poll tax existing

side-by-side with the rates for many years, would have been any more popular. Many Tory councils were not keen on the idea, and a ten-year transition might only have prolonged the agony.

By the time of Mrs Thatcher's third term, the policy originally drawn up by non-Thatcherites to please their mistress was firmly in the hands of some of Mrs Thatcher's closest ideological allies – Nicholas Ridley and his Minister of State, Michael Howard, men who argued for it much more passionately. It was ironic perhaps that in 1984 the Prime Minister had initially been sceptical about looking at reform again, and then in 1985, she had taken some time to accept the poll tax. However, by the time it was introduced in 1990, Margaret Thatcher was so firmly linked with the measure that its unpopularity proved to be her undoing.

Meanwhile, most of those who helped devise the poll tax went on to greater glory. Christopher Foster was knighted in 1986; Terence Heiser got his knighthood the following year having been made DoE Permanent Secretary in 1985; Peter Owen became a Deputy Secretary in the Department; Anthony Mayer went to work for Lord Rothschild at his bank before being appointed chief executive at the Housing Corporation in 1991; Jill Rutter returned to the Treasury and served for a year as private secretary to an up-and-coming Chief Secretary, John Major; Roger Bright stayed in the DoE and was perhaps ideally qualified to take charge of Michael Heseltine's enquiry into the poll tax in the winter of 1990–91; Oliver Letwin is the Conservative candidate for Hampstead and Highgate, a marginal seat where his Labour opponent Glenda Jackson has tried to make much political capital of his role in inventing the poll tax. But the two ministers who actually devised and recommended the poll tax, William Waldegrave and Kenneth Baker, suffered few recriminations, and were both rewarded by Mrs Thatcher with prominent jobs in Cabinet. Both men have had their political difficulties in the last year – Waldegrave over the health reforms, and Baker over the Brixton prison escape – but on the blunder these two former Heathites were most responsible for, they somehow managed to escape almost unharmed.

NOTES

1. *Alternatives to Domestic Rates*, Cmnd. 8449 (London: HMSO, 1981).
2. *Rates*, Cmnd. 9008 (London: HMSO, 1983).
3. Nicholas Ridley's recent book, *My Style of Government* (London: Hutchinson, 1991), pp.32 and 123, confirms Mrs Thatcher was 'persuaded' after lunch at Chequers to look again at reforming the rates. But Ridley's date, 23 June 1985, is far too late for the rest of the chronology.
4. C.D. Foster, R. Jackman and M. Perlman, *Local Government Finance in a Unitary State* (London: Allen & Unwin, 1980), pp.220-41.

5. See, for example, C. D. Foster and R. Jackman's article 'Accountability and Control of Local Spending', *Public Money* 2 (Sept. 1982), pp. 11–14.
6. *Financial Times*, 26 Nov. 1983.
7. D. Mason, *Revising the Rating System* (London: Adam Smith Institute, 1985).
8. M. Forsyth, *The Case for a Poll Tax* (London: Conservative Research Centre, 1985).
9. T. Blackstone and W. Plowden, *Inside the Think Tank: Advising the Cabinet 1971–1983* (London: Mandarin, 1990), p. 50.
10. P. Clarke, *A Question of Leadership: Gladstone to Thatcher* (London: Hamish Hamilton, 1991), p. 319, is just one example.
11. N. Lawson, 'Why the Poll Tax Must Go', *Daily Telegraph*, 4 March 1991.
12. *Paying for Local Government*, Cmnd. 9714, (London: HMSO, 1986).

FRANK CASS

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